

ESG in the Investment Industry

- Principles for Responsible Investing (PRI) is the foremost global advocate for responsible investment.
- PRI signatories pledge to uphold six Principles for Responsible Investment.
- Principles guide investors on how to integrate environmental, social, and governance (ESG) issues into their investment processes.
- As of 4/30/18, signatories' assets under management were \$81.7 trillion; year-to-date, the number of signatories exceeds 2,300.
- IR+M has been a PRI signatory since 2013.

PRI Signatory Growth Continues Upward Trajectory



- ESG has long been a consideration for equity investors, who, as owners, may engage the board of directors on ESG concerns. Shareholders also may use proxy voting to influence ESG behavior.
- ESG is gaining traction in fixed income, fueled by recognition that ESG issues may increase risks born by bondholders.
- As of 12/31/18, US ESG fixed income assets totaled \$34.6 billion, driven primarily by retail investors.
- Numerous ESG bond funds, indices, and security types have been introduced, such as green bonds and social bonds.
- Rating agencies are under pressure to incorporate ESG factors into their analysis.
- In January 2019, Fitch introduced an integrated scoring system – ESG Relevance Scores – which shows how ESG factors influence rating decisions.

ESG at IR+M

- At IR+M, we view ESG factors as tiles in our bottom-up credit analysis mosaic, and evaluate their impact on issuers' long-term performance.
- Analysts use a proprietary Key Issues Map, which divides the ESG pillars into nine themes and 35 key issues, to highlight pertinent and material risks specific to each sector. We apply this framework across all sectors, including securitized. An excerpt is below.

		Media	Auto ABS
		Entertainment	
ENVIRONMENTAL			
Climate Change	Greenhouse Gas Emissions	●	
Waste Management	Waste, Pollution, and Hazardous Materials Management		●
Innovation	Clean Technology and Renewable Energy		●
SOCIAL			
Human Capital	Labor Relations, Management, Inclusion, and Diversity	●	
Customer & Product Management	Product and Service Safety and Quality	●	●
Societal Impacts	Access to Finance		●
GOVERNANCE			
Governance	Board Oversight and Effectiveness	●	
	Compliance, Controls, Reporting, and Audit	●	●
Behavior	Ethics	●	●
	Anti-Competitive Practices	●	

ESG in the News

- ESG factors may influence headlines and impact credit performance, as reflected in the positive, negative, and neutral examples below.
 - + Bank of America issued a social bond in January 2019; it was the first US bank to do so. Net proceeds will help address issues impacting low-to-moderate income neighborhoods in the US.
 - Wells Fargo's unauthorized account scandal and allegations of overcharging or over-fining clients impacted new business, resulting in large monetary penalties. Wells Fargo continues to work through its governance issues.
 - = CBS' highly publicized sexual harassment allegations against CEO Les Moonves were negative from a governance perspective. However, the company's leadership took quick and decisive action, thereby curbing reputational and financial impacts.

Sources: eVestment, PRI, Business Wire, and Climate Change Initiative.

All data in the above commentary is as of 02/28/19. The views contained in this report are those of IR+M and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations for, or projected returns of any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research & Management.